

Poughkeepsie City School District

Procurement and Claims Auditing

DECEMBER 2019



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Poughkeepsie City School District

Audit Objective

Determine whether the Board provided adequate oversight of procurement and claim processing.

Key Findings

The Board did not:

- Seek competition for professional services totaling approximately \$1.6 million or competitively bid purchase and public works contracts totaling approximately \$6.1 million during the audit period.
- Have written agreements with nine professional service providers paid a total of \$968,545 during the audit period.

The Director for Technology:

- Circumvented the procurement policy and ordered various items online totaling \$71,226 during the audit period, including \$4,596 for shipping costs.

Key Recommendations

- Ensure purchases subject to the competitive bidding thresholds are made in accordance with GML.
- Enter into written agreements with all professional service providers.
- Ensure that all purchases are subject to the District's procurement process.

District officials agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background

The Poughkeepsie City School District (District) is located in the City of Poughkeepsie in Dutchess County. The District provides public education services to the children who reside within the City limits.

The District is governed by an elected five-member Board of Education (Board). The Board is responsible for overall management of the District. The Board appoints a Superintendent of Schools who acts as the chief executive officer responsible for day-to-day management and establishing and implementing District policies.

The Assistant Superintendent for Finance and Operations is the Board-appointed purchasing agent responsible for overseeing the procurement process. The Board-appointed claims auditor is responsible for examining all claims against the District and approving or disapproving payment.

Quick Facts

2017-18 General Fund Expenditures	\$94.4 million
2016-17 General Fund Expenditures	\$86.8 million
Employees	820
Enrollment	4,700

Audit Period

July 1, 2016 – July 18, 2018

Procurement and Claims Auditing

How Should the Board Oversee Procurement?

New York State General Municipal Law (GML)¹ generally requires school districts to solicit competitive bids for purchase contracts that aggregate to more than \$20,000, and public works contracts that aggregate to more than \$35,000 within a year. GML further requires that the board adopt written policies and procedures for the procurement of goods and services not required by law to be competitively bid, such as professional services.²

GML states that goods and services must be procured in a manner that ensures prudent and economical use of public funds in the best interest of taxpayers, and is not influenced by favoritism, extravagance, fraud or corruption.³ Because professional services can involve significant dollar expenditures, using request for proposals (RFPs) or obtaining written or verbal quotes is an effective way to ensure that the district receives the desired services for the best price.⁴

The board is responsible for giving notice of any audit performed by an independent auditor. The audit report should be filed as a public record and available to the public for inspection. Additionally, the board is responsible to protect and retain records for as long as they are needed. Further, written contracts between the District and professional service providers should be entered into to provide both parties with a clearly defined and mutually agreed-upon basis for compensation and help to protect the district in the event that contractors default on their obligations or make excessive claims.

The District procurement policy requires verbal quotes for purchases between \$100 and \$1,000 and public work contracts between \$1,000 and \$5,000. The policy also requires written quotes for all purchase contracts between \$1,000 and \$10,000 and public work contracts between \$10,000 and \$20,000. Additionally, the policy requires that written documentation is maintained when soliciting quotes.

New York State Education Law, Section 2526 allows the board to appoint a claims auditor to assume the board's powers and duties to examine and approve claims. As part of the claims audit process, the claims auditor should ensure that the district's procurement policy is followed, including the requirement that purchase orders are prepared and approved before purchasing goods or receiving services.

1 New York State General Municipal Law (GML), Section 103

2 GML, Section 104-b. Professional services generally include services provided by attorneys, engineers and certain other services requiring specialized or technical skills, expertise or knowledge; the exercise of professional judgment; or a high degree of creativity.

3 Ibid.

4 Refer to our publication *Seeking Competition in Procurement* available on our website at www.osc.state.ny.us/localgov/pubs/lgmg/seekingcompetition.pdf

Board policy requires the claims auditor to examine each claim to ensure that it is for a valid and legal purpose, incurred by an authorized employee or official, received and service rendered and that obligations do not exceed available appropriations. The claims auditor should ensure that each claim is in proper form, mathematically correct, does not include previously paid charges and agrees with the purchase order or contract upon which it is based.

Confirming purchase orders⁵ should not be allowed except for emergency purchases because such purchases circumvent the approval and price verification features of the normal procurement process. Adhering to effective claims auditing procedures ensures all claims comply with statutory requirements and district policies and contain adequate supporting documentation, and the amounts represent actual and necessary expenditures.

The Board Did Not Update the Procurement Policy

Although, the Board adopted a procurement policy that provides guidance for bidding, it has not reviewed this policy annually. As a result, the policy is outdated because it references the GML⁶ bidding thresholds for purchases in excess of \$10,000 and public works in excess of \$20,000, not the current threshold for purchases in excess of \$20,000 and public works in excess of \$35,000. Furthermore, we found that the policy is incomplete because it does not provide guidance for public works contracts between \$5,000 and \$10,000.

The Superintendent for Finance and Operations told us that District officials have not reviewed the policy because the District has experienced high turnover. However, when this policy is not updated, officials have no assurance that cost considerations are evaluated, statutory requirements are followed to ensure open and fair competition and the procurement process is cost-effective.

The Board Did Not Seek Competition for Professional Services

The Board-adopted procurement policy requires the District to procure professional services by issuing an RFP. During 2016-17, District officials paid 60 professional service providers a total of approximately \$2.5 million. We examined payments to 13 professional service providers who were paid approximately \$1 million in 2016-17 and found that the Board did not seek competition for services from these providers. The District also used 10 of these same providers in 2017-18 without seeking competition with total payments of \$590,723.

5 A purchase order that is issued after the goods or services have already been ordered or received

6 GML, Section 103 requires sealed bids to be solicited for purchases in excess of \$20,000 and public works in excess of \$35,000.

Figure 1: Professional Services Reviewed

Services Provided	2016-17		2017-18	
	Number of Providers	Amount	Number of Providers	Amount
Legal	3	\$323,795	1	\$16,565
Occupational Therapy	1	\$191,499	1	\$221,077
Insurance	1	\$149,122	1	\$105,580
Physical Therapy	2	\$133,160	1	\$33,600
Grant Evaluator	1	\$75,000	1	\$75,000
Accounting	3	\$73,425	3	\$87,650
Medicare Reporting	1	\$34,563	1	\$8,907
State Aid Recovery	1	\$22,794	1	\$42,344
Totals	13	\$1,003,357	10	\$590,723

In February 2018, officials sought competition for legal services for 2017-18 by issuing an RFP. However, the selected providers were paid a total of \$382,280 for that year before the RFP process was complete (in addition to the amount paid to the legal providers shown in Figure 1).

In addition, the Board appointed an attorney as special counsel by resolution on July 7, 2017, who was paid \$61,477 before the RFP was initiated and \$35,568 after the RFP process was complete. In July 2018, this attorney was hired as a District employee and later resigned. Officials also paid \$53,903 for legal services from another attorney, who did not submit a proposal and was retained even after the RFP process was complete.

Figure 2: 2017-18 Additional Legal Services

	Amount Paid Before the RFP Process	Amount Paid After the RFP Process	Amount Paid Without an RFP
Attorney 1	\$61,477	\$35,568	\$0
Attorney 2	\$303,083	\$0	\$53,903
Attorney 3	\$17,720	\$0	\$0
Total	\$382,280	\$35,568	\$53,903

When the Board does not ensure that officials seek competition when procuring professional services, it cannot assure taxpayers that services are provided by the most economically beneficial and qualified providers and that their selection was not influenced by favoritism.

Officials Lacked Written Contracts With Professional Service Providers

We reviewed payments to 13 professional service providers during our audit period to determine whether the Board entered into written agreements or contracts with these providers. Due to the lack of Board oversight, written agreements were not entered into with nine of these providers who were paid \$968,545.

Without adequate written contracts, neither the District nor the providers have a clear way to determine the basis for compensation.

The Board Did Not Ensure That Competitive Bids Were Always Used

Officials did not comply with GML⁷ and solicit bids for purchase contracts exceeding \$20,000 or public works contracts exceeding \$35,000. We identified 63 vendors who were paid approximately \$8.6 million in 2016-17 for purchase and public work contracts that exceeded the bidding thresholds. We examined payments to 19 vendors (39 percent) who were paid approximately \$3.4 million.⁸

We found that 13 vendors, who were paid approximately \$2.9 million in 2016-17 for purchase and public work contracts were not selected through competitive bidding. Additionally, these vendors were paid approximately \$3.3 million in 2017-18. District officials told us the high turnover of key officials in recent years may have contributed to the failure to bid. However, obtaining competitive bids is a legal requirement to ensure a competitive procurement process for large purchases.

Awarding contracts without the benefit of a public bidding process for goods and services that exceed the bidding threshold violates GML. Furthermore, the Board cannot provide taxpayers with assurances that goods and services are procured in the most prudent and economical manner for the lowest price, and procurement decisions are not influenced by favoritism.

Officials Did Not Obtain Required Quotes for Goods and Services

District officials did not obtain quotes for purchase and public work contracts in accordance with their policy. During our audit period, officials made 1,079 payments to vendors totaling approximately \$3.9 million. We identified 542 vendors who were paid more than \$1.9 million for purchases between the \$1,000 and the \$20,000 thresholds that required quotes.

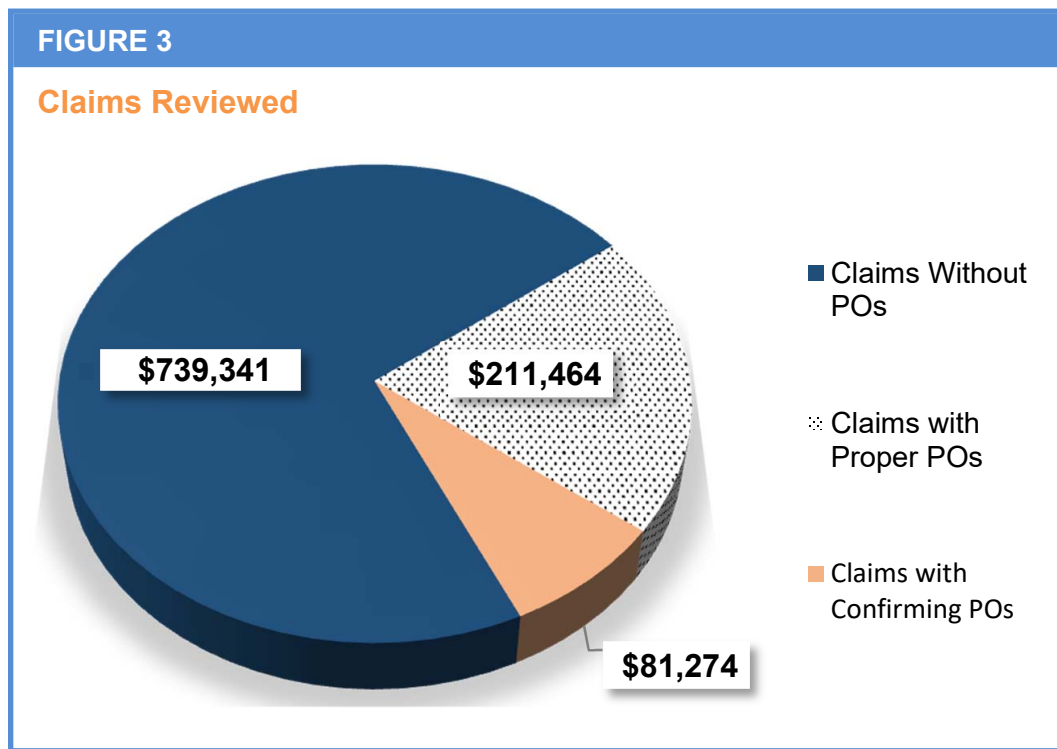
⁷ GML, Section 103

⁸ Refer to Appendix B for information on our sampling methodology.

We reviewed payments made to 10 of these vendors totaling \$52,194. We found that purchases were made from all of these vendors without soliciting the required quotes. By not obtaining quotes, District Officials cannot be assured they are obtaining goods and services at the lowest responsible price.

Claims Were Audited Without Proper Documentation

During our audit period, District officials paid 8,316 non-payroll claims totaling approximately \$218.5 million. We reviewed 88 claims totaling approximately \$1 million, to determine whether these claims were processed as required. We found that 42 claims totaling \$739,341 (71 percent) did not have purchase orders and 18 claims totaling \$81,274 (8 percent) were confirming purchase orders. These claims were not audited in compliance with District policy and the auditor did not require documentation explaining the reasons the purchases did not conform to the policy before being approved for payment.



Although all of these purchases appeared to be proper expenditures, the lack of required documentation circumvents internal controls and weakens the procurement and budget control process. By not enforcing compliance with policy and procedures, there is an increased risk that errors and irregularities could occur and not be detected.

Officials Did Not Ensure Online Purchases Complied With District Policy

The Board allowed the Director for Technology (Director) to open an account with an online retailer to purchase copier supplies and needed computer equipment. We reviewed all the online retailer's invoices totaling \$71,432 paid during our audit period and observed the following items purchased by the Director:

- IT equipment for \$53,118 (74 percent) including computers and laptop notebooks.
- Copier toner for \$5,852 (8 percent).
- Shipping costs of \$4,596 (6 percent).
- Janitorial supplies for \$2,441 (3 percent) such as paper towels, air fresheners, hand sanitizer, and pest control items.
- Other items for \$4,934 (7 percent), this category includes items such smartwatches, car chargers, a heat sensing gun, sound system, a cordless drill, hand trucks, ceramic heaters, office supplies and coffee supplies.
- Gift cards for \$491 (1 percent) for music applications for special education students.

The Director told us that he had sole access to the online retailer account, and did not seek quotes for items because he believed that purchase prices from this online retailer are more economical than from other vendors. He also told us that he receives requests for items from teachers directly, and purchases through this retailer. As for the pest controls items, he told us that they had a rodent infestation in the IT department. The Director further told us that because teachers need items quickly, he used next-day shipping, and as result the District incurred shipping costs.

We found that none of these purchases were submitted to the purchasing agent for approval before the items were ordered. Further, although District officials had a blanket purchase order for this retailer, they did not review the items purchased by the Director. In addition, we could not determine whether these purchases were appropriate since District officials could not explain why the IT department was buying janitorial supplies and smart watches. Moreover the District did not have a system in place to have someone not involved in the purchase verify receipt and when appropriate add items to the inventory control list.

Because there was no oversight, competition was not solicited and these purchases were not subjected to a claims audit, it appears the Director was circumventing the purchasing process and was allowed to order items from the retailer that may not be for appropriate purposes.

What Do We Recommend?

The Board should:

1. Update the procurement policy to reflect the current thresholds for competitive bidding and written contract retention and to provide guidance for quotes for public works contracts between \$5,000 and \$10,000.
2. Obtain professional services through a competitive process, or provide justification when seeking competition will not be in the best interest of taxpayers.
3. Enter into written agreements with all professional service providers.
4. Ensure goods and services are obtained through competition, in accordance with GML.
5. Ensure all necessary quotes are obtained in accordance with the policy and retain all necessary documentation.
6. Ensure purchase orders are generated before the claim is paid.
7. Ensure that officials and employees follow the procurement policy and that all claims are supported.

Appendix A: Response From District Officials



Poughkeepsie City School District

December 5, 2019

Office of the State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor
Albany, NY 12236

Re: Report 2019M-16

Office of the State Comptroller:

The Poughkeepsie City School District Board of Education has reviewed the Draft report provided on Procurement and Claims Auditing, and agrees with the findings noted. The District will develop a corrective action plan based upon the following recommendations provided in your report 2019M-16. The Board of Education thanks you for your time and efforts in helping the district.

Key Recommendations:

1. Ensure purchases subject to the competitive bidding thresholds are made in accordance with GML.
2. Enter into written agreements with all professional service providers.
3. Ensure that all purchases are subject to the District's procurement process.

Sincerely,

Dr. Eric Rosser
Superintendent of Schools
Poughkeepsie City School District

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective⁹ and obtain valid audit evidence, our audit procedures included the following:

- We interviewed officials and reviewed Board minutes, resolutions and policies to gain an understanding of the procurement and claims auditing processes.
- From a population of 2,431 claims totaling \$35,736,152 in 2017 and 2,676 claims totaling \$40,967,710 in 2018, we reviewed 88 non-payroll claims totaling \$1,047,353 to determine when a purchase order was generated and the type of purchase. We reviewed the invoice to determine whether an invoice was itemized and shipping was paid for the purchase.
- We reviewed the Board's procurement policy and documentation related to requests for proposals to determine whether the District sought competition when obtaining professional services.
- We reviewed documentation related to professional service providers to determine whether the Board entered into written contracts with them.
- We reviewed all online retailer invoices for the audit period to determine whether goods purchased were for appropriate purposes. We also reviewed each invoice to determine whether shipping was charged for the order.
- We obtained the cash disbursement records and found that District officials made 8,316 purchases totaling approximately \$218.5 million during the audit period. We then separated purchases by dollar amount and found that officials paid 63 vendors in 2016-17 approximately \$8.6 million and 62 vendors in 2017-18 approximately \$9.4 million for items subject to competitive bidding requirements. Using our professional judgment, we selected five public works and 14 purchase contracts for review. We selected larger vendor purchases from each department and omitted disbursements to other school districts for out-of-District tuition payments that are out of the District's control. We reviewed bid information and contract information and scanned the Board minutes for any evidence of competitive bidding.
- We determined there were 542 vendors paid approximately \$1.92 million in 2016-2017 and 537 vendors paid approximately \$1.98 in 2017-18 subject to obtaining quotes in accordance with District policy. We reviewed the checks, vouchers, and invoices of 10 purchases that each exceeded \$3,000 to determine whether quotes were obtained for purchases and public works procurements. Using our professional judgement, we selected our sample of purchases from several departments.

⁹ We also issued separate audit reports, *Poughkeepsie City School District – Extra-Classroom Activities and Information Technology Assets (2019M-15)* and *Poughkeepsie City School District – Payroll (2019M-110)*.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or relevant population size and the sample selected for examination.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-1(3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The CAP should be posted on District's website for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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